Mid-Year Financial Report and Budget Update

CONNECTING TO THE FUTURE

November, 2001

SASKATCHEWAN
The Hon. Eric Cline
Minister of Finance

102-02200/

Message from the Minister of Finance

On September 11th tragedy struck the United States and shock waves were felt around the world. The resulting global economic slowdown will lead to a decline in revenue for all Canadian governments. Economic uncertainty makes it exceptionally difficult to forecast future revenues.

Saskatchewan is currently forecasting revenue shortfalls of $104 million in the 2001-02 budget year. This shortfall is mainly due to declining natural resource prices and a substantial drop in Equalization Payments from the Federal Government. The recent drought also negatively affected Saskatchewan's economy.

Saskatchewan is fortunate to be able to call on its Fiscal Stabilization Fund to meet this shortfall. The Fund is doing what it was set up to do, help manage Saskatchewan's finances during a period of uncertainty. This Fund allows the Province to maintain expenditure plans as outlined in our budget.

While revenues are down from projections, we are keeping our spending under control. We will continue to manage our expenses carefully throughout the balance of this fiscal year and into the next. We all need to recognize that demands for increased funding will be difficult to meet.

Despite the economic situation, we are accomplishing the goals set out in our Spring 2001 budget.

This year we are investing $1.1 billion, our largest budget ever, in education, post-secondary and skills training. So far this year we've established 38 new community schools and plan to add four more before the fiscal year is complete.

In this budget we launched a historic three-year, $900 million investment in Saskatchewan's highways. Highway improvements this year included opening 70 km of newly twinned highway, resurfacing 315 km of paved highways and upgrading over 300 km of Thin Membrane Surfaced (TMS) rural highways.

We are promoting full participation in the new, digital economy through an ambitious six-year, $71 million project to connect schools, post-secondary institutions and health facilities together in 366 communities with high-speed Internet connections. To date over 45 per cent of our schools are now on-line.

We are proceeding with our key initiatives as outlined in Saskatchewan's 2001-02 budget. In addition to maintaining these initiatives we are managing our finances carefully during this time of fiscal uncertainty.

The Honourable Eric Cline
Minister of Finance

Introduction

The Government of Saskatchewan annually publishes a Mid-Year Financial Report to provide updates and information regarding the fiscal and economic state of the Province. This report also addresses emerging issues.

The 2001-02 Budget, Connecting to the Future, carried forward the Government's balanced approach to financial management. This Budget addressed the three long-term goals of the Government:

- A thriving economy that enhances the quality of life for all;
- Responsible and healthy citizens, families and communities; and,
- Responsive and effective government.

The measures introduced in the 2001-02 Budget build on last year's plan for growth and opportunity by investing in education and training, building our transportation infrastructure and promoting full participation in the new, digital economy.

The 2001-02 Mid-Year Financial Report contains four sections:

- A Report Card showing progress the Government is making on key commitments from the 2001-02 Budget;
- An Economic Overview, examining the current state of our provincial economy;
- A Financial Overview, detailing the issues and opportunities that have occurred since the Budget was released and the explanation of how they have been managed; and,
- Financial Tables, comparing the current projections to budget forecasts for revenue, expenses, borrowing requirements, debt and guaranteed debt.

Connecting to the Future – Report Card

The 2001-02 Budget focused on "Connecting to the Future" to give Saskatchewan people the tools they need to plug-in, participate, communicate and compete. The Budget outlined significant investments organized around three key themes:

- **Education** – the largest investment ever in education, post-secondary education and skills training – $1.1 billion
- **Transportation** – the launch of an historic three-year, $900 million investment in roads and highways
- **Technology** – the cornerstone of the Government's information technology plan is CommunityNet – a six-year, $71 million project to connect schools, post-secondary institutions and health facilities in 366 communities with a high-speed network. The Government will also modernize its technological infrastructure – creating Saskatchewan's digital E-Government system

In addition, the 2001-02 Budget reduced small business tax rates, continued implementation of the personal income tax reform package introduced the previous year, and enhanced several tax credits.

Six months into the fiscal year, Government is on track to meet a number of key commitments made in the 2001-02 Budget.

EDUCATION

- 38 new Community Schools established to date, with a total of 42 by the end of the year; this will double the number of Community Schools at the start of the year
- Enhanced training capacity for information technology related programs at the universities and SIAST (20 new seats at SIAST in the 2002-03 fiscal year; 30 new computer science seats at the U of S and 20 to 25 new seats at the U of R for this year)
- A virtual Saskatchewan Campus has been established which will use technologies such as the Internet, multimedia and televised delivery; 70-80 courses will be available by the end of March 2002 and a further 60-70 will be under development
- 1,673 additional summer jobs for secondary and post-secondary students planning to return to school (target was 1,500)
- 312 Centennial Merit Scholarships provided to date for first year [high achievement] university students at public institutions (target is 325)
- 27 students enrolled in the first session of the Northern Health Access Program

42 Additional Community Schools in 2001-02 *

Archbishop M.C. O'Neill High School, Regina
Balcarres School, Balcarres
Bedford Road Collegiate, Saskatoon
Bert Fox Composite High, Fort Qu'Appelle
Big River High School, Big River
Bishop Klein School, Saskatoon
Carlyle Elementary School, Carlyle
Carpenter High School, Meadow Lake
Cochrane High School, Regina
Connaught Elementary, North Battleford
Dr. Brass Elementary, Yorkton
Father Gorman Elementary School, Lloydminster
Fort Qu'Appelle Elementary, Fort Qu'Appelle
Jack Kemp School, Lloydminster
John Paul II Collegiate, North Battleford
Jubilee Elementary, Meadow Lake
Lakeview Elementary School, Meadow Lake
Leask School, Leask
McDermid School, Regina
Mount Royal Collegiate, Saskatoon
North Battleford Comprehensive, North Battleford
Nutana Collegiate, Saskatoon
Prince Arthur School, Moose Jaw
Punnichy School, Punnichy
Riverview Collegiate/Empire School, Moose Jaw
Rosemont School, Regina
Scott Collegiate, Regina
St. Goretti School, Saskatoon
St. Mary High, Prince Albert
Stobard Elementary School, Duck Lake
Stobard High School, Duck Lake
T.D. Michel Elementary School, Big River
Victoria School, Kamsack
Vincent Massey School, Saskatoon
Wagner School, Nipawin
Wascana School, Regina
Wesmore School, Prince Albert
West View School, Prince Albert

* 4 other schools to be named

TRANSPORTATION

- On schedule to twin Highway No. 1 west by fall of 2004 – 20 km completed and officially opened October 25, 2001 and another 24 km under construction this fall
- On schedule to twin Highway No. 1 east by 2012 and Highway No. 16 between North Battleford and Lloydminster by 2010 – 33.4 km completed and opened on Highway No. 1 east and 16.8 km opened on Highway No. 16
- Completed 315 km of pavement resurfacing (compared to target of 380 km)
- Upgraded over 300 km of TMS highways to granular pavements – major projects include 45 km of Highway No. 155 and 20 km of Highway No. 4 north of Cadillac
- Improvements to northern roads and highways – completed the Turnor Lake access road, completed Highway No. 951 and the Waterhen Access Road
- The province is committed to upgrading TMS links to support regional highway corridor development – six strategic highway corridors, like Highway No. 4 from Cadillac to Swift Current, are now at a pavement standard
- Improved safety through expanded mowing and signing programs (approximately 25% increase)
- More front-line operational staff compared to 2000-01 – 46 additional summer students and 14 Centennial students (a 50% increase); with the students there were 110 more operational staff working on highways this summer (a 6.8% increase)
- Delivered a $61.6 million budget increase for Highways with no increase in administrative staff or administrative costs
- $3.7 million of Centenary Fund initiatives are underway or completed - including improvements to internal park roadways, relocation of Highway No. 11 and Grasswood Road intersection, designating Highway No. 11 as Louis Riel Trail and the Centenary Enhanced Tourism Signing Program
- Together with 51 different partners under the Strategic Rural Roads Partnership Program, 30 projects are underway to upgrade more than 500 km of low volume provincial highways

REDUCING TAXES

- Saskatchewan's top marginal personal income tax rate is now second only to Alberta
- Overall provincial taxes paid by an average family are now fifth lowest in Canada (from second highest in 1993)
- An estimated 55,000 low income taxpayers are being removed from the income tax rolls
- Saskatchewan's small business tax rate is now sixth lowest in the country (was second highest)
- Full indexation of the personal income tax system, which provides inflation protection for Saskatchewan taxpayers, has already begun and will be completed in 2003
- Education tax credit doubled in 2001 to $400 per month for full-time students and $120 per month for part-time students to recognize rising non-tuition costs for post-secondary students
- Saskatchewan is one of only five provinces to increase the small business income tax threshold
- A new tax credit will promote mineral exploration and development in the North
- Additional targeted incentives in support of the resource sector have been put in place
- Professionals are now allowed to incorporate their practices

NEXT STEPS...

- Tax reform will continue in 2002 and 2003 with already legislated reductions in personal income tax rates.
- Tax reductions to date amount to about 60 per cent ($150M) of tax reform's total estimated tax reduction of $260M. Additional tax reductions in 2002 and 2003 will provide remaining 40 per cent ($110M).
- The average family's income taxes have been reduced by about $660 so far. Another $340 will be provided over the next two years, bringing the total income tax reduction for the average family to about $1,000.

TECHNOLOGY

- 45 per cent of schools (includes First Nations schools) now have high-speed Internet connection (exceeds the target of 30 per cent)
- 6.5 per cent of health facilities now have high-speed Internet connection
- SaskTel now offers high-speed Internet to 46 communities (up from 8 communities)
- On-line access to all legislative documents is now available free of charge
- The new automated corporate registry system, including enhancements to one-stop business registrations, will be implemented in spring/summer 2002

CommunityNet has made it possible for SaskTel to expand its commercial high speed Internet service to 27 communities more quickly than was originally intended. With this expansion, most residential and business customers in the following areas will have SaskTel High Speed Internet before the end of 2001:

Assiniboia	Balgonie	Biggar	Canora
Davidson	Esterhazy	Fort Qu'Appelle	
Hudson Bay	Indian Head	Kamsack	Kerrobert
La Ronge	Langham	Lumsden	Maple Creek
Martensville	Outlook	Oxbow	Pilot Butte
Rosetown	Rosthern	Shaunavon	Unity
Warman	Watrous	Wilkie	Wynyard

People in 46 communities, representing more than 61% of Saskatchewan's population, will have access to high speed Internet service. The goal is to provide service to 95% of Saskatchewan residents within five years.

CommunityNet Update

Communities Connected to CommunityNet as of October 2001

Aberdeen	D'Arcy	Indian Head	Nokomis	Sturgeon Landing
Admiral	Davidson	Ituna	North Battleford	Sucker River
Air Ronge	Delisle	Jans Bay	Ogema	Swift Current
Allan	Deschambault	Kamsack	Onion Lake	Sylvania
Asquith	Dillon	Kenaston	Outlook	Timber Bay
Assiniboia	Dodsland	Kerrobert	Oxbow	Tisdale
Avonlea	Dore Lake	Kinoosao	Pakwaw Lake	Torquay
Balcarres	Drake	Kindersley	Patuanak	Turnor Lake
Balgonie	Duck Lake	Kyle	Paynton	Turtleford
Battleford	Dundurn	La Ronge	Pelican Narrows	Unity
Belle Plaine	Earl Grey	La Loche	Pense	Uranium City
Bellevue	Edenwold	Lang	Perdue	Val Marie
Bethune	Esterhazy	Langham	Pierceland	Vanguard
Biggar	Estevan	Lanigan	Pilot Butte	Vanscoy
Birch Hills	Eston	Leask	Pinehouse	Viceroy
Black Lake	Fon-du-lac	Leoville	Pleasantdale	Victoire
Brabant	Fort Qu'Appelle	Little Red Reserve	Plenty	Viscount
Broadview	Frontier	Lloydminster	Ponteix	Vonda
Brock	Gallivan	Loon Lake	Preeceville	Warman
Buffalo Narrows	Glenavon	Lumsden	Prince Albert	Waterhen Lake
Bulyea	Goodsoil	Macklin	Raymore	Watrous
Cadillac	Govan	Major	Red Earth	Weekes
Camsell Portage	Grandmother's Bay	Maple Creek	Rosetown	Weyakwin
Cando	Gray	Marcelin	Rosthern	Weyburn
Canoe Narrows	Green Lake	Marsden	Rouleau	White City
Canora	Grenfell	Martensville	Sandy Bay	White Fox
Carnduff	Griffin	Mayfair	Shaunavon	Whitewood
Choiceland	Gronlid	Meadow Lake	Shell Lake	Wilcox
Clavet	Hall Lake	Medstead	Shellbrook	Wilkie
Climax	Handel	Melfort	Sintaluta	Windthorst
Cochin	Hanley	Melville	Sonningdale	Wolseley
Cole Bay	Hazlet	Meota	Southend	Wollaston Lake
Colonsay	Hillmond	Michel	Southey	Wynyard
Cr[illegible]ess	Holdfast	Milestone	Spiritwood	Yellow Grass
Creik	Hudson Bay	Montreal Lake	St. George's Hill	Yorkton
Creighton	Humboldt	Moose Jaw	Stanley Mission	
Cumberland House	Ile a La Crosse	Moosomin	Stony Rapids	
Cupar	Imperial	Nipawin	Strasbourg	

Note: Regina and Saskatoon already had high-speed Internet connection prior to CommunityNet.

Communities to be Connected to CommunityNet

Nov. 2001

Annaheim
Beechy
Borden
Broadview
Bruno
Crane Valley
Dalmeny
Eatonia
Elrose
Englefeld
Eyebrow
Ferland
Glentworth
Golden Prairie
Hodgeville
Kennedy
Kipling
Kronau
Leroy
Lipton
Loreburn
Lucky Lake
Mankota
Middle Lake
Montmartre
Muenster
Neville
Radisson
Sedley
Spring Valley
Stewart Valley
Wadena
Wawota
Yellow Quill
Young

Dec. 2001

Blaine Lake
Bredenbury
Calder
Cudworth
Duck Lake
Endeavour
Harris
Kamsack
Lestock
McLean
Milden
Odessa
Punnichy
Qu'Appelle
Raymore
Rhein
Semans
Vibank
Wapella
Whitewood
Willowbrook

Jan. 2002

Abbey
Benson
Carlyle
Central Butte
Chaplin
Climax
Frobisher
Gladmar
Gravelbourg
Gull Lake
Kincaid
Lafleche
Leader
Lemburg
Macoun
Maryfield
Mortlach
Neudorf
North Portal
Oungre
Prelate
Storthoaks
Stoughton

Feb. 2002

Briercrest
Burstall
Caronport
Consul
Coronach
Eastend
Herbert
Limerick
Morse
Mossbank
Richmound

March 2002

Bengough
Cabri
Fox Valley
Piapot
Ponteix
Rockglen
Tompkins
Waldeck
Willow Bunch
Wymark

April 2002

Archerwill
Arcola
Carlyle
Fillmore
Kelvington
Lintlaw
Pangman
Radville
Rose Valley
Stoughton

May 2002

Alameda
Alida
Lampman
Manor
Midale
Redvers
Wadena
Wishart

June 2002

Bienfait
Carievale
Foam Lake
Gainsborough
Springside
Theodore
Wakaw

July 2002 to Dec 2003

Arborfield
Balcarres
Beuval
Big River
Birch Hills
Bjorkdale
Cando
Canwood
Carrot River
Christopher Lake
Churchbridge
Coleville
Cut Knife
Debden
Denzil
Dinsmore
Edam
Glaslyn
Good Soil
Grayson
Invermay
Kelliher
Kinistino
Lake Lenore
Landis
Langenburg
Lashburn
Leoville
Loon Lake
Luseland
Maidstone
Marengo
Marshall
Maymont
Naicam
Neilburg
Norquay
Paradise Hill
Pelly
Pierceland
Pinehouse
Porcupine Plain
Quill Lake
Rapid View
Regina Beach
Rocanville
Saltcoats
Shell Lake
Shellbrook
Smeaton
Spalding
Spiritwood
St Brieux
St Louis
St. Walburg
Star City
Stockholm
Sturgis
Turtleford
Watson
Zenon Park

More information is available at **www.communitynet.ca**

Economic Overview

Introduction

The economic forecast presented with the 2001-02 Budget in March 2001 called for the province's real GDP to grow at an annual rate of 2.2 per cent in 2001. The forecast was based on a soft landing scenario for the U.S. and Canadian economies as well as an average crop harvest in the province.

Following a robust 4.6 per cent growth in 2000, a sharper-than-expected downturn in U.S. and Canadian growth as well as drought in the province will likely cause the Saskatchewan economy to under-perform the 2001-02 Budget forecast for 2001.

Economic Forecast Assumptions

The 2001-02 Budget forecast called for economic growth of 2.1 per cent for the U.S. and 2.8 per cent for Canada in 2001. Both the U.S. and Canadian economies have posted weaker-than-expected growth.

2001 U.S. and Canadian Economic Indicators

	Assumption	Actual	Period Covered
U.S. Growth (%)	2.1	1.3*	1st quarter
		0.3*	2nd quarter
		-0.4*	3rd quarter
Canadian Growth (%)	2.8	2.0*	1st quarter
		0.4*	2nd quarter
Canadian Inflation Rate (%)	2.6	2.9	1st 10 months
Canadian Short-term Interest Rates (%)	5.0	4.2	1st 10 months
Canadian Long-term Interest Rates (%)	6.6	7.1**	1st 10 months
Canadian Dollar (U.S. cents)	67.8	64.6	1st 10 months
Canadian Unemployment Rate	6.9	7.1	1st 10 months

* Annualized. ** Corporate bonds

The size and quality of the crop harvest are important factors affecting the province's economic performance. The economic forecast was based on an average crop assumption. The quality of this year's crop was above average but the volume of the crop harvested was 22 per cent below the 10-year average and 31 per cent below last year's level.

Not all of the economic indicators for Saskatchewan are negative. Short-term interest rates have come down further than previously expected. Deteriorating economic fundamentals and declining trade between the U.S. and Canada have put further downward pressure on the value of the Canadian dollar. Most commodity prices have been as expected or better than expected, particularly in the months prior to the September 11th attacks. Interest rates, the exchange rate and commodity prices are expected to provide some cushion against the downward pressures.

Commodity Prices

	Assumption	Actual	Period Covered
WTI Oil (U.S.$/barrel)	25.50	27.17	1st 10 months
Natural Gas (C$/GJ)	5.86	5.76	1st 10 months
Potash (C$/tonne)	197.10	210.00	1st 6 months
Wheat (C$/tonne)	146.59	146.14	Nov. 2001 estimate
Barley (C$/tonne)	129.82	144.33	Nov. 2001 estimate
Canola (C$/tonne)	225.66	254.34	Nov. 2001 estimate

Economic Performance

Partial-year results show that the economy has been noticeably slower than expected. Total employment has contracted, largely because of the loss of farm jobs.

Employment and Unemployment Rate

	Change from 2000	Period Covered
Total Employment	-12,070	1st 10 months
Farm Employment	-11,380	1st 10 months
Non-farm Employment	-690	1st 10 months
Unemployment Rate (%)	5.8	1st 10 months

The oil, gas and manufacturing sectors, which have been the mainstays of growth in recent years, also appear to have cooled off. Manufacturing shipments are down slightly while retail trade and production of oil and natural gas show minimal gains. Other key indicators, such as exports, housing starts, potash production, oil sales and potash sales, are lower.

Mining Indicators

	Per Cent Change	Period Covered
Volume of Oil Production	2.3	1st 8 months
Volume of Natural Gas Production	1.0	1st 8 months
Volume of Potash Production	-10.0	1st 9 months
Value of Oil Sales	-19.8	1st 8 months
Value of Natural Gas Sales	70.2	1st 8 months
Value of Potash Sales	-23.5	1st 9 months
Number of Oil Wells Drilled	-10.4	1st 9 months
Number of Natural Gas Wells Drilled	17.2	1st 9 months

There are areas of increased activity. Drilling and sales of natural gas remain an important source of economic growth.

Wholesale trade, sales of new passenger cars and building permits for industrial and institutional/government buildings have risen strongly thus far in 2001.

Other Indicators

	Per Cent Change	Period Covered
Manufacturing Shipments	-2.4	1st 9 months
Retail Trade	1.5	1st 9 months
Wholesale Trade	18.9	1st 9 months
Sales of New Passenger Cars	3.8	1st 9 months
Housing Starts	-17.3	1st 9 months
Residential Building Permits	-13.1	1st 9 months
Commercial Building Permits	-12.1	1st 9 months
Industrial Building Permits	63.8	1st 9 months
Institutional/Government Building Permits	64.4	1st 9 months
International Exports	-6.0	1st 9 months

Post-September 11th economic data for Saskatchewan will not be available until December 2001. Almost all events and assessments of the economic situation, however, indicate that the Saskatchewan economy, like other provincial economies, will be moving at a slower pace for the remainder of the year.

Drought and the events of September 11th have resulted in a significant downgrade of private sector forecasts for Saskatchewan's 2001 growth rate. The most recent private sector forecasts average 0.8 per cent compared to their Spring forecasts of 2.7 per cent.

Financial Overview

The 2001-02 Budget presented in March estimated a General Revenue Fund (GRF) surplus of $2.8 million.

To the middle of the 2001-02 fiscal year, the province's financial position has declined by $97.2 million.

2001-02 Saskatchewan GRF Budget Estimates

	($Millions)
Revenue	6,041.7
less Operating Expenditure	5,662.1
Operating Surplus	379.6
less Interest Costs	640.5
plus Transfer from Fiscal Stabilization Fund	263.7
Surplus	2.8

Revenue

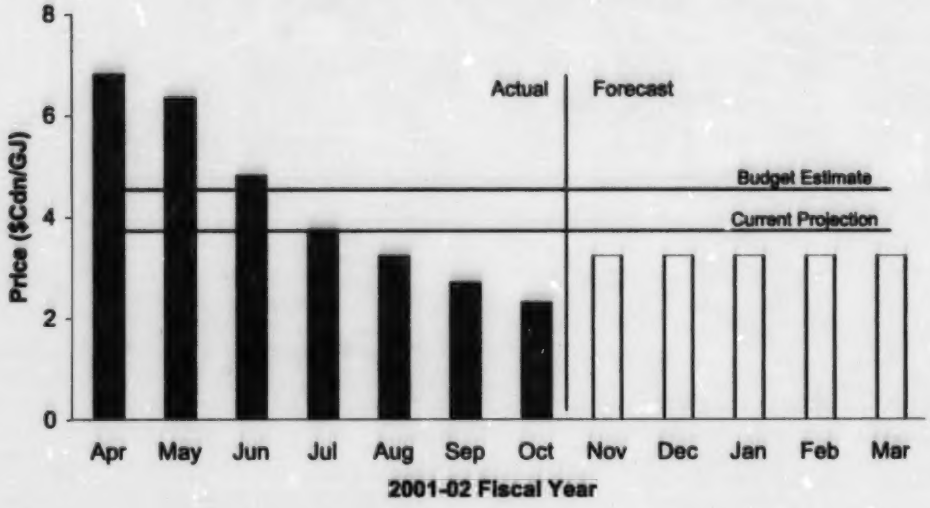
Provincial government revenue is now projected to be $103.7 million, or 1.7 per cent, lower than the Budget estimate.

Own-source revenue is now projected to be $33.7 million, or 0.7 per cent, lower than the Budget estimate.

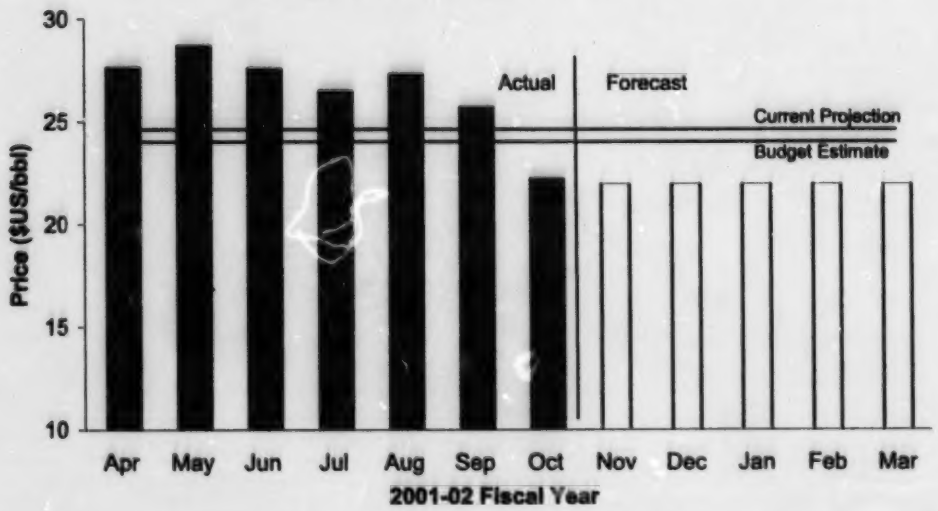
The most significant own-source revenue decrease results from lower-than-expected natural gas revenue.

- Natural gas revenue is now projected to be $32.0 million below the Budget estimate. Fieldgate prices for 2001-02 are now projected to average $3.71/GJ - a decrease of 17.9 per cent from the Budget estimate of $4.52/GJ.
- Oil revenue and average world oil prices are both close to the levels estimated in the Budget. Oil revenue is now projected to be $1.5 million, or 0.3 per cent, below the Budget estimate. The price of West Texas Intermediate (WTI) oil is now projected to be US$24.61 per barrel, slightly above the Budget estimate of US$24.00 per barrel for the 2001-02 fiscal year.

Average Natural Gas Prices ($Cdn/GJ)



Average WTI Oil Prices ($US/bbl)



Other own-source revenue decreases include the following.

- Fuel tax revenue is projected to be $7.7 million under Budget due mainly to lower-than-expected fuel sales.
- Individual income tax revenue is projected to be $3.1 million under Budget, reflecting revised wage growth data.
- Corporation income tax revenue is projected to be $2.1 million under Budget, reflecting revised corporate profit data.
- Interest revenue is projected to be $2.1 million under Budget due mainly to lower interest rates.

These own-source revenue decreases are partially offset by increases in the following.

- Corporation capital tax revenue is projected to be $7.3 million above Budget due mainly to higher-than-anticipated prior-year payments. These are partially offset by lower payments in the current year resulting from lower oil and natural gas prices.
- Saskatchewan Liquor and Gaming Authority revenue is projected to be $3.9 million above Budget due mainly to amortization savings and a higher estimate of Saskatchewan Indian Gaming Authority net income.
- Other non-renewable resource revenue is projected to be $2.6 million above Budget due mainly to increased uranium royalties.

Transfers from the Government of Canada are now projected to be $70.0 million, or 6.3 per cent, lower than the Budget estimate.

The most significant decrease in Government of Canada transfers is in Equalization payments.

- Equalization payments are projected to be $75.8 million lower than the Budget estimate. This decrease is due to declines in prior year adjustments and current year entitlements.

Other changes in Government of Canada transfers are:

- a $4.5 million increase in the Canada Health and Social Transfer; and,
- a $1.3 million increase in other transfers from the Government of Canada.

GRF Revenue Reconciliation

	($Millions)
2001-02 Budget Revenue Estimate	**6,041.7**
Plus Key Increases:	
Corporation Capital Tax	7.3
Canada Health and Social Transfer	4.5
Saskatchewan Liquor and Gaming Authority	3.9
Other Non-Renewable Resource Revenue	2.6
Less Key Decreases:	
Equalization	-75.8
Natural Gas Revenue	-32.0
Fuel Tax	-7.7
Individual Income Tax	-3.1
Corporation Income Tax	-2.1
Interest Revenue	-2.1
Oil Revenue	-1.5
Plus Other Miscellaneous Changes	2.3
2001-02 Mid-year Revenue Projection	**5,938.0**

Operating Expenditure

Provincial government operating expenditure is now projected to be $3.5 million, or 0.1 per cent, higher than the Budget estimate.

Spending is projected to be under Budget in 15 of the 31 votes, with the largest spending decreases occurring in five areas.

- Health is forecast to be $8.9 million under Budget due mainly to lower utilization of physician and health program services.
- Social Services is forecast to be $5.8 million under Budget due mainly to lower expenditure in the Saskatchewan Assistance Plan and the Saskatchewan Child Benefit.
- Culture, Youth and Recreation is forecast to be $4.1 million under Budget due mainly to a transfer of gaming fund expenditure to Intergovernmental and Aboriginal Affairs.
- Agriculture and Food is forecast to be $3.5 million under Budget due to Canadian Farm Income Program claims being lower than expected.
- Post-Secondary Education and Skills Training is forecast to be $2.5 million under Budget due mainly to lower utilization of various training programs.

Eleven of the 31 votes are projected to be over Budget, with the largest spending increases occurring in six areas.

- Teachers' and public service pensions and benefits are forecast to be $10.5 million over Budget due mainly to changes in the projected number of retirements.
- Environment and Resource Management is forecast to be $6.4 million over Budget due mainly to increased costs for forest fire management.
- Intergovernmental and Aboriginal Affairs is forecast to be $4.8 million over Budget due mainly to a transfer of gaming fund expenditure previously recorded under Culture, Youth and Recreation.
- Justice is forecast to be $3.1 million over Budget due mainly to the North Battleford water inquiry and the Commission on First Nations and Metis Peoples and Justice Reform.
- Saskatchewan Property Management Corporation is forecast to be $2.8 million over Budget primarily due to funding for the construction of the Canada/Saskatchewan Film, Video, Production and Education Centre.
- Economic and Co-operative Development is forecast to be $1.7 million over Budget primarily as a result of additional funding required as part of the Western Economic Partnership Agreement with the federal government.

The remaining five votes are forecast to be on Budget.

GRF Operating Expenditure Reconciliation	
	($Millions)
2001-02 Budget Operating Expenditure Estimate	**5,662.1**
Plus Increases:	
Pensions and Benefits	10.5
Environment and Resource Management	6.4
Intergovernmental and Aboriginal Affairs	4.8
Justice	3.1
Saskatchewan Property Management Corporation	2.8
Economic and Co-operative Development	1.7
Other Increases	0.8
Less Decreases:	
Health	-8.9
Social Services	-5.8
Culture, Youth and Recreation	-4.1
Agriculture and Food	-3.5
Post-Secondary Education and Skills Training	-2.5
Other Decreases	-1.8
2001-02 Mid-year Operating Expenditure Projection	**5,665.6**

Interest Costs

Interest costs are now projected to be $10.0 million lower than the Budget level reflecting substantial decreases in costs as a result of lower interest rates on current year financing. The decreases are partially offset by increases in interest costs due to the weakening of the Canadian dollar relative to the U.S. dollar.

Fiscal Stabilization Fund Transfer

The Fiscal Stabilization Fund (FSF) was created in 2000-01 for the purpose of stabilizing the fiscal position of the province from year-to-year and to facilitate the accomplishment of long-term objectives.

The Budget estimated a $263.7 million transfer from the FSF. To the middle of the fiscal year, the FSF transfer is projected to increase by $95.0 million to $358.7 million.

This will reduce the balance in the FSF to $416.3 million at the end of 2001-02. After meeting the commitments for 2002-03 and 2003-04 outlined in the Budget, the FSF balance will be $208.0 million, or 3.4 per cent of the previous year's revenue forecast, at the end of 2003-04.

Interprovincial Fiscal Outlook

Other Canadian governments are facing a fiscal environment that is similar to Saskatchewan's.

- Alberta has reduced its surplus projection for 2001-02 from $817 million to $12 million and has reduced 2001-02 spending by $784 million.
- Manitoba has announced a cost reduction exercise for 2001-02 to maintain a balanced budget.
- Ontario has used $300 million of its $1 billion contingency reserve for 2001-02.
- Québec has drawn down its budgetary reserve by $950 million for 2001-02.
- Nova Scotia has announced spending reductions of 0.5 per cent for many departments for the remainder of the 2001-02 fiscal year.
- Newfoundland is deferring the implementation of a personal income tax cut that had been scheduled for January 1, 2002.
- Prince Edward Island has announced a $37 million deficit as opposed to a budgeted $2 million surplus.
- British Columbia has increased its deficit projection from $1.5 billion to $2.0 billion.

Risks to the Forecast

The major risks to the forecast come from two main sources. The first is world commodity prices, particularly oil and natural gas. Prices of these commodities continue to be volatile in world markets. The second is the possibility of a severe and prolonged economic downturn in Canada or the United States.

Borrowing and Debt

Debt

The debt of the General Revenue Fund (GRF) consists of:

- Gross Debt - the amount of money owed to lenders; plus
- Guaranteed Debt - the debt of Crown corporations and others that the Province has promised to repay if they are unable to do so; less
- Sinking Funds - the amount of money which has been set aside for the repayment of debt.

As shown below, the debt of the GRF at March 31, 2002 is currently projected to be $391.6 million more than estimated in the Budget.

Summary of Debt as at March 31, 2002

	Estimated 2002	Forecast 2002	Change
			($Millions)
Government			
Gross Debt	$ 7,994.6	$ 8,242.6	$ 248.0
Guaranteed Debt	217.9	231.6	13.7
Less: Sinking Funds[1]	588.4	602.2	13.8
Government Debt	$ 7,624.1	$ 7,872.0	$ 247.9
Crown Corporations			
Gross Debt	$ 3,792.1	$ 3,940.5	$ 148.4
Guaranteed Debt	36.6	36.6	–
Less: Sinking Funds[1]	307.8	312.5	4.7
Crown Corporation Debt	$ 3,520.9	$ 3,664.6	$ 143.7
Total Debt	**$11,145.0**	**$11,536.6**	**$ 391.6**

[1] Sinking funds are monies which are set aside for the orderly repayment of debt in the future.

The Province borrows for government and Crown corporations. Crown Corporations are responsible for the principal and interest payments on their debt. Crown corporation debt is incurred in the normal course of business, primarily for investment in infrastructure and business development initiatives which provide revenue streams to service the debt.

The $247.9 million increase in government debt is due primarily to two factors:

- As the Canadian dollar depreciates against the U.S. dollar, the value of the Province's U.S. dollar debt increases. The 2001-02 Budget assumed a 65.29 cent Canadian dollar; the current forecast is based on a 62.42 cent Canadian dollar. This change increases government debt by $70.5 million.
- Certain entities maintain deposits with the GRF. As funds are withdrawn from these deposits, the government must borrow to replace these funds, therefore increasing debt. The current forecast shows an increase in the funds required by the Saskatchewan Crop Insurance Corporation ($100.3 million) and the Fiscal Stabilization Fund ($95.0 million).

General Revenue Fund Total Debt by Purpose as at March 31, 2002

	Estimated 2002	Forecast 2002	Change
			(Millions)
Crown Corporations			
Agricultural Credit Corporation of Saskatchewan	$ 47.0	$ 45.8	$ (1.2)
Crown Investments Corporation of Saskatchewan	20.7	20.0	(0.7)
Information Services Corporation of Saskatchewan	32.4	55.0	22.6
Municipal Financing Corporation of Saskatchewan	27.1	27.1	–
Saskatchewan Development Fund	1.2	1.2	–
Saskatchewan Housing Corporation	165.3	164.8	(0.5)
Saskatchewan Opportunities Corporation	190.6	163.7	(26.9)
Saskatchewan Power Corporation	1,775.7	1,941.2	165.5
Saskatchewan Telecommunication	450.2	454.9	4.7
Saskatchewan Water Corporation	48.7	43.7	(5.0)
SaskEnergy Incorporated	762.0	747.2	(14.8)
Total Crown Corporation Purposes	$ 3,520.9	$ 3,664.6	$ 143.7
General Government Debt	$ 7,624.1	$ 7,872.0	$ 247.9
Total Debt	**$11,145.0**	**$11,536.6**	**$ 391.6**

Borrowing

The Province borrows through the sale of securities in capital markets and through the sale of savings bonds to Saskatchewan residents.

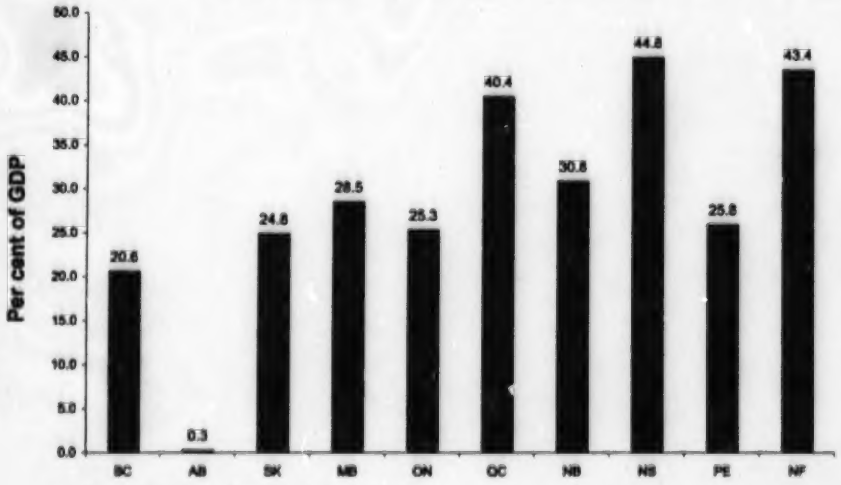
The Province's 2001-02 borrowing requirements are projected to be $1.3 billion, $407.1 million higher than estimated in the Budget due to increased requirements for Crown corporations ($196.8 million) and general government purposes ($210.3 million).

The increase in general government purpose requirements is primarily due to a drawdown of funds held on deposit in the GRF on behalf of Saskatchewan Crop Insurance Corporation and the Fiscal Stabilization Fund.

To date, about one-half of the 2001-02 projected borrowing requirements have been raised through the sale of debentures and by the sale of Saskatchewan Savings Bonds to residents of the Province.

On the basis of Dominion Bond Rating Service's overview of Canadian governments' 2001 budgets, released November 2001, Saskatchewan's tax-supported debt (net of unfunded pension liabilities) as a per cent of GDP was third lowest among the provinces.

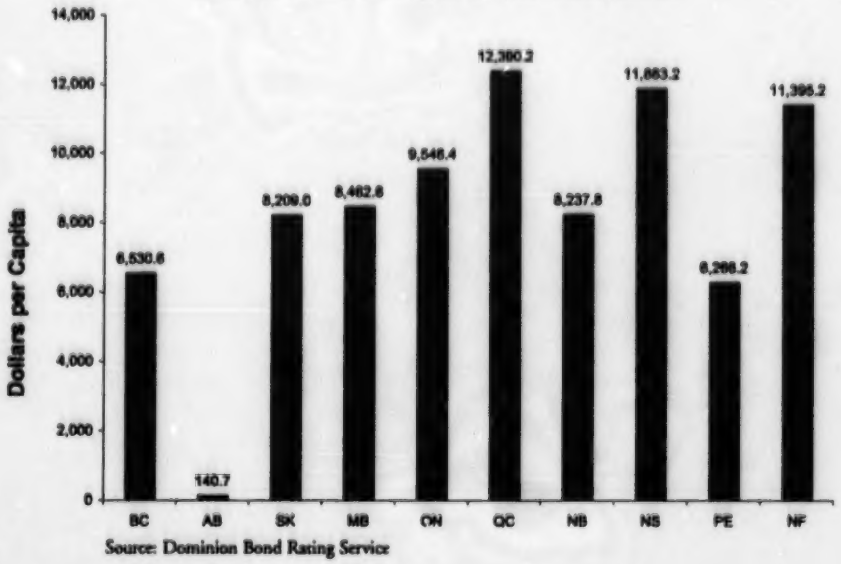
Interprovincial Debt to GDP Comparison



Source: Dominion Bond Rating Service

On a per capita basis, Saskatchewan ranks fourth lowest among the provinces.

Interprovincial Debt per Capita Comparison



Source: Dominion Bond Rating Service

Mid-Year Financial Report

Financial Tables

2001-02 Mid-Year Financial Report
Province of Saskatchewan
General Revenue Fund
Statement of Revenue, Expenditure and Surplus

	Budget Estimate	Mid-Year Projection	Change
		(In Thousands of Dollars)	
Revenue	$ 6,041,700	$ 5,938,000	$ (103,700)
Operating Expenditure	5,662,124	5,665,607	3,483
Operating Surplus	**$ 379,576**	**$ 272,393**	**$ (107,183)**
Less: Servicing the Public Debt	$ 640,500	$ 630,500	$ (10,000)
Plus: Transfers from the Fiscal Stabilization Fund	263,700	358,700	95,000
Surplus	**$ 2,776**	**$ 593**	**$ (2,183)**

2001-02 Mid-Year Financial Report
Province of Saskatchewan
General Revenue Fund
Statement of Revenue

	Budget Estimate	Mid-Year Projection	Change
		(In Thousands of Dollars)	
Corporation Capital	$ 367,700	$ 375,000	$ 7,300
Corporation Income	273,100	271,000	(2,100)
Fuel	367,700	360,000	(7,700)
Individual Income	1,184,900	1,181,800	(3,100)
Sales	795,500	795,500	0
Tobacco	124,600	124,600	0
Other	65,000	65,000	0
Taxes	**$ 3,178,500**	**$ 3,172,900**	**$ (5,600)**
Natural Gas	$ 167,900	$ 135,900	$ (32,000)
Oil	511,500	510,000	(1,500)
Potash	160,900	160,900	0
Other	37,000	39,600	2,600
Non-Renewable Resources	**$ 877,300**	**$ 846,400**	**$ (30,900)**
Crown Investments Corporation of Saskatchewan	$ 200,000	$ 200,000	$ 0
Saskatchewan Liquor and Gaming Authority	312,700	316,600	3,900
Other Enterprises and Funds	45,000	44,500	(500)
Transfers from Crown Entities	**$ 557,700**	**$ 561,100**	**$ 3,400**
Fines, Forfeits and Penalties	$ 14,100	$ 14,400	$ 300
Interest, Premium, Discount and Exchange	47,300	45,200	(2,100)
Motor Vehicle Fees	112,700	112,700	0
Other Licences and Permits	47,500	47,500	0
Sales, Services and Service Fees	69,200	69,500	300
Transfers from Other Governments	17,500	16,100	(1,400)
Other	12,100	14,400	2,300
Other Revenue	**$ 320,400**	**$ 319,800**	**$ (600)**
Own-Source Revenue	**$ 4,933,900**	**$ 4,900,200**	**$ (33,700)**
Canada Health and Social Transfer	$ 594,000	$ 598,500	$ 4,500
Equalization Payments	377,000	301,200	(75,800)
Other	136,800	138,100	1,300
Transfers from the Government of Canada	**$ 1,107,800**	**$ 1,037,800**	**$ (70,000)**
Revenue	**$ 6,041,700**	**$ 5,938,000**	**$ (103,700)**

2001-02 Mid-Year Financial Report
Province of Saskatchewan
General Revenue Fund
Statement of Expenditure

	Budget Estimate	Current Projection	Change
		(In Thousands of Dollars)	
Executive Branch of Government			
Agriculture and Food	$ 337,103	$ 333,603	$ (3,500)
Centenary Fund	30,000	30,000	0
Culture, Youth and Recreation	29,709	25,611	(4,098)
Economic and Co-operative Development	67,896	69,642	1,746
Education	521,543	520,938	(605)
– Teachers' Pensions and Benefits	93,380	101,689	8,309
Energy and Mines	30,301	30,726	425
Environment and Resource Management	130,022	136,416	6,394
– Forest Fire Contingency	40,000	40,000	0
Executive Council	7,707	7,630	(77)
Finance	36,823	36,283	(540)
– Pensions and Benefits	175,495	177,649	2,154
Health	2,207,228	2,198,296	(8,932)
Highways and Transportation	311,692	311,692	0
Intergovernmental and Aboriginal Affairs	46,422	51,176	4,754
Justice	235,376	238,440	3,064
Labour	13,408	13,373	(35)
Municipal Affairs and Housing	170,778	170,547	(231)
Post-Secondary Education and Skills Training	511,486	508,946	(2,540)
Public Service Commission	8,965	9,211	246
Rural Revitalization Office	800	792	(8)
Saskatchewan Municipal Board	1,101	1,090	(11)
Saskatchewan Property Management Corporation	21,719	24,502	2,783
Saskatchewan Research Council	8,390	8,390	0
Saskatchewan Water Corporation	8,810	8,722	(88)
Social Services	588,492	582,690	(5,802)
Women's Secretariat	1,183	1,171	(12)
Legislative Branch of Government			
Chief Electoral Officer	710	859	149
Conflict of Interest Commissioner	122	115	(7)
Information and Privacy Commissioner	105	97	(8)
Legislative Assembly	17,571	17,479	(92)
Ombudsman and Children's Advocate	2,651	2,696	45
Provincial Auditor	5,136	5,136	0
Operating Expenditure	**$ 5,662,124**	**$ 5,665,607**	**$ 3,483**
Servicing the Public Debt	**$ 640,500**	**$ 630,500**	**$ (10,000)**
Expenditure	**$ 6,302,624**	**$ 6,296,107**	**$ (6,517)**

2001-02 Mid-Year Financial Report
Province of Saskatchewan
General Revenue Fund
Statement of Borrowing Requirements

	2001-02 Budget Estimate	2001-02 Current Projection	Change
		(In Thousands of Dollars)	
Borrowing for Crown Corporations			
Agricultural Credit Corporation of Saskatchewan	$ 13,000	$ 11,800	$ (1,200)
Information Services Corporation of Saskatchewan	11,400	34,754	23,354
Saskatchewan Housing Corporation	51,000	51,000	–
Saskatchewan Opportunities Corporation	37,800	30,000	(7,800)
Saskatchewan Power Corporation	76,000	200,000	124,000
Saskatchewan Telecommunication Holding Corporation	8,900	22,200	13,300
Saskatchewan Water Corporation	8,200	3,386	(4,814)
SaskEnergy Incorporated	–	50,000	50,000
Borrowing for Crown Corporations	$ 206,300	$ 403,140	$ 196,840
Borrowing for General Government	$ 684,153	$ 894,435	$ 210,282
Total Borrowing Requirements	$ 890,453	$ 1,297,575	$ 407,122

2001-02 Mid-Year Financial Report
Province of Saskatchewan
General Revenue Fund
Statement of Debt
As at March 31

	Budget Estimate	Mid-Year Projection	Change
		(In Thousands of Dollars)	
Crown Corporation Debt			
Agricultural Credit Corporation of Saskatchewan	$ 46,951	$ 45,751	$ (1,200)
Crown Investments Corporation of Saskatchewan	175,027	175,027	–
Information Services Corporation of Saskatchewan	32,400	55,000	22,600
Municipal Financing Corporation of Saskatchewan	24,575	24,575	–
Saskatchewan Housing Corporation	166,459	166,459	–
Saskatchewan Opportunities Corporation	193,406	166,491	(26,915)
Saskatchewan Power Corporation	1,845,351	2,012,987	167,636
Saskatchewan Telecommunications Holding Corporation	480,272	486,522	6,250
Saskatchewan Water Corporation	49,184	44,193	(4,991)
SaskEnergy Incorporated	778,516	763,487	(15,029)
Crown Corporation Debt	$ 3,792,141	$ 3,940,492	$ 148,351
General Government Debt	$ 7,994,605	$ 8,242,619	$ 248,014
Gross Debt	$11,786,746	$12,183,111	$ 396,365
Guaranteed Debt			
Crown Corporations	$ 36,607	$ 36,607	$ –
Other	217,809	231,641	13,832
Guaranteed Debt	$ 254,416	$ 268,248	$ 13,832
Less: Equity in Sinking Funds			
Crown Corporations	$ 307,830	$ 312,500	$ 4,670
General Government	$ 588,362	$ 602,271	$ 13,909
Equity in Sinking Funds	$ 896,192	$ 914,771	$ 18,579
Total Debt	$11,144,970	$11,536,588	$ 391,618
Crown Corporations	$ 3,520,918	$ 3,664,599	$ 143,681
General Government	$ 7,624,052	$ 7,871,989	$ 247,937
Total Debt	$11,144,970	$11,536,588	$ 391,618

2001-02 Mid-Year Financial Report
Province of Saskatchewan
General Revenue Fund
Statement of Guaranteed Debt
As at March 31

	Budget Estimate	Mid-Year Projection	Change
		(In Thousands of Dollars)	
Guaranteed Debt for Crown Corporations			
The Municipal Financing Corporations Act			
Guaranteed Debentures	$ 2,500	$ 2,500	$ –
The Power Corporation Act			
National Trust Company	10,003	10,003	–
Luscar Ltd.	22,749	22,749	–
Saskatchewan Power Savings Bonds			
Series I to VII (matured)	155	155	–
The Saskatchewan Development Fund Act			
Guaranteed Investments	1,200	1,200	–
The Saskatchewan Telecommunications Act			
TeleBonds (matured)	–	–	–
Guaranteed Debt for Crown Corporations	$ 36,607	$ 36,607	$ –
Other Guaranteed Debt			
The Farm Financial Stability Act			
Breeder Associations Loan Guarantees	$ 17,300	$ 17,300	$ –
Feeder Associations Loan Guarantees	19,050	19,050	–
Agricultural Income Disaster Assistance Program	800	800	–
The Government Organization Act			
The Saskatchewan Roughriders Football Club	2,100	2,100	–
The Housing and Special Care Homes Act			
Senior Citizens' Housing	96	96	–
The Industry and Commerce Development Act			
Saskferco Products Inc.	104,410	114,844	10,434
The NewGrade Energy Inc. Act			
NewGrade Energy Inc.	73,828	77,226	3,398
The Student Assistance and Student Aid Fund Act	225	225	–
Other Guaranteed Debt	$ 217,809	$ 231,641	$ 13,832
Total Guaranteed Debt	**$ 254,416**	**$ 268,248**	**$ 13,832**